

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**MEXICO**

**IMPLEMENTING CORPORATE SOCIAL RESPONSIBILITY MEASURES IN  
SMALL AND MEDIUM ENTERPRISES IN THE VALUE CHAIN**

**(ME-M1003)**

**DONORS MEMORANDUM**

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Project Performance Monitoring Report (PPMR)

## ABBREVIATIONS

CESI	Committee on Environment and Social Impact
CONCAMIN	Federation of Industrial Chambers of the United States of Mexico [ <i>Confederación de Cámaras Industriales de los Estados Unidos Mexicanos</i> ]
CSR	Corporate social responsibility
FUNTEC	Mexican Foundation for Innovation and Technology Transfer [ <i>Fundación Mexicana para la Innovación y Transferencia de Tecnología, A.C.</i> ]
GDP	Gross Domestic Product
IDEA	Anahuac Business Development Institute [ <i>Instituto de Desarrollo Empresarial de Anáhuac</i> ]
IDB	Inter-American Development Bank
MIF	Multilateral Investment Fund
NGO	Non-governmental organization
SME	Small and medium enterprise

**MEXICO: IMPLEMENTING CORPORATE SOCIAL RESPONSIBILITY MEASURES IN SMALL  
AND MEDIUM ENTERPRISES IN THE VALUE CHAIN  
(ME-M1003)**

**I. EXECUTIVE SUMMARY**

<b>Executing Agency:</b>	Universidad Anáhuac
<b>Beneficiaries:</b>	The program's beneficiaries will be primarily the approximately 100 small and medium enterprises (SMEs) participating as part of the value chain of some ten keystone companies which sponsor projects.
<b>Amount and Source:</b>	Modality: Grant – Small Enterprise Development Facility (III-A) MIF: US\$ 1,275,000 Local: <u>US\$ 1,250,000</u> Total: US\$ 2,525,000
<b>Terms:</b>	Execution Period: 36 months Disbursement Period: 42 months
<b>Objectives and Description:</b>	<p>The general objective of the program is to improve the competitiveness and market opportunities for small and medium enterprises (SMEs). The purpose of the program is to support the implementation of CSR measures among SMEs that are in the value chains of larger enterprises.</p> <p>To achieve these objectives, the program will include the following three components: (i) Development of methodology and local capacity for implementing CSR measures; (ii) CSR implementation in SMEs in the value chain; and (iii) Promotion of CSR and dissemination of the results.</p>
<b>Environmental and Social review:</b>	The Committee on Environment and Social Impact (CESI) reviewed this project document in its meeting (TRG 10-04) held on March 12, 2004 and recommended that the project document clarify that the monitoring system is expected to include specific indicators that will address environment related areas, among others. As a result, it is expected that there will be quantifiable environment related benefits in many of the participating SMEs that can be measured against the baseline (see paragraph 3.7).
<b>Special contractual conditions:</b>	None.
<b>Relationship with initiatives of other international organizations:</b>	None.

## **II. BACKGROUND**

### **A. Corporate social responsibility (CSR)**

- 2.1 Corporate social responsibility (CSR) is a business approach that views respect for ethics, people, communities and the environment, as an integral strategy that increases value added and thus improves the competitive position of a firm. While CSR may include philanthropic activities, more critical are the directly business-related activities. The concept of CSR encompasses workers' rights, human rights, anti-corruption measures, environmental concerns, and promotion of community health and education.
- 2.2 CSR activities may concentrate on processes and outcomes. Key process activities include: (i) at a minimum ensuring, and preferably going beyond, compliance with domestic laws on such areas as working conditions, corruption and environmental impact; (ii) internal processes and practices which ensure compliance with codes of conduct established by industry groups or external interest groups, usually including systems and standards to monitor continuing compliance; and, (iii) reporting and auditing systems, carried out either with internal or external resources, which improve transparency and, hence, accountability, focusing on CSR metrics which may be company-specific, industry-specified or more generically centered on the "triple bottom-line" approach of assessing concurrently financial, social and environmental results.
- 2.3 CSR activities which focus more on outcomes include: (i) direct investments in productive processes which advance CSR objectives, such as reducing environmental impact; (ii) collateral investments in support of primary business activities, such as enhanced worker and community health; and (iii) development of stronger value chains, working with suppliers and customers to foster CSR goals.

### **B. Value chains and CSR**

- 2.4 In the 1990s, businesses learned that the ultimate quality of the output of an integrated value chain could not be greater than the quality of its weakest link. Consequently, quality management of the entire value chain became a vital tool of business management and a critical element to enhance differential competitiveness. Similarly, businesses are coming to realize that their response to demands for CSR is critically dependent on conduct through their value chains, including suppliers, distributors and customers. Responsible value chain initiatives are driven by the business-related benefits derived from enhanced performance and better relationship with suppliers, improved public reputation and a stronger risk management policy. Large company influence over small and medium enterprise (SME) suppliers and clients can be an effective means to motivate the SMEs to implement CSR measures. As more SMEs are motivated to implement such measures and achieve direct benefits, more small enterprises would tend to become convinced of the business case and thus interested in implementing CSR measures.

### **C. Current problem**

- 2.5 The primary demand for CSR implementation stems from consumers more critically concerned with responsible behavior from the producers of the products they buy. As

part of this, large companies are becoming increasingly concerned about the actions and performance of the companies within their value chain to avoid adverse association with irresponsible value chain partners, as well as direct pressures from employees, communities, governments and NGO groups. These demands from diverse constituencies in Mexico and abroad are having a growing impact on Mexican firms of all sizes.

- 2.6 For the large and small businesses themselves, the positive operational benefits of enhanced competitiveness through CSR may include increased revenues from improved market access and premium pricing; reduced costs from lower direct production costs for labor, material and energy; and lower marketing, compliance and financing costs. In the region, companies attach a particular value to preserving and enhancing access to primary global markets and in improving workers' conditions and community support. As significantly, the actual and potential adverse impacts from ignoring social responsibilities are seen as material and growing costs for Mexican business in domestic and international markets.
- 2.7 Recognizing the increased importance of CSR in terms of company and country competitiveness MIF sent out an invitation in November 2003 to solicit proposals from eleven different organizations in Mexico that are known to have experience and interest in CSR. Several of the eleven organizations decided to join forces and respond jointly, resulting in three different proposals. Of these, the Universidad Anáhuac, along with FUNTEC, was ultimately selected for its solid record of performance (see Annex IX in the technical files for assessment). Anahuac, for instance, has experience related to CSR and value chain management, having taught diverse advanced training courses and provided direct assistance in the development of value chain projects.
- 2.8 For the last few years, the Universidad Anáhuac, has collaborated with other Mexican organizations in the development of a methodology for private companies that can assist them to develop policies, procedures and systems that reinforce a company's mission and values as well as in fulfilling its responsibility to its employees, clients, suppliers, investors, and its social and environmental surroundings. The methodology serves as the basis for socially responsible management principles, including the implementation of codes of conduct. This effort fed into the development of the Mexican Norm for Social Responsibility and Integrity (which is still in draft form), as well as the organization of two large international conferences on social responsibility and integrity in Mexico: "Social Responsibility as a Generator of Trust and Business Competitiveness," that took place in Mexico City in June 2003, and the second one, "Corporate Social Responsibility in the 21st Century", that took place in Monterrey in June 2004.

#### **D. Proposed program**

- 2.9 The current opportunity is to foster and accelerate the adoption of CSR processes and investments. The key starting point is working with and through large companies, both domestic and multinational, that have relationships with SMEs as suppliers and customers. These value chain dealings encompass primary direct suppliers and customers, as well as secondary associations – the suppliers of one's suppliers, etc. Typically, these large companies, which are referred to as "keystone companies" for their central role, have strong relationships with their value chain partners, with mutual understanding of each other's businesses and processes as well as leverage to foster mutually beneficial joint activities. The "keystones" will be selected for their demonstrated success with internal CSR actions



and willingness to undertake and invest in these initiatives in the SMEs in their value chains, although they may lack appropriate expertise and processes to develop and succeed in such activities. Mexico offers a large number of potential “keystone” companies, both domestic and multinational, operating within value chains with many SMEs, thus providing a good environment to launch and develop CSR initiatives in the value chain.

- 2.10 MIF’s contribution to this process is to initiate and help structure productive collaboration among the “keystone” large companies focused on implementing CSR measures in their SME value chain partners, with catalytic funding, complementary to that provided by local institutions and the “keystone” companies themselves. The primary outcomes will be enhanced competitiveness and more responsible behavior within the SMEs in extended value chains; secondary outputs will be development of appropriate and realistic expectations, methods and metrics for further development of CSR. The continuing participation by highly-visible large “keystone” companies will greatly enhance demonstration effects, setting the stage for replication and extension of similar efforts in Mexico and within the entire region. Universidad Anáhuac has already received letters of commitment from several large companies along with expressed interest from several other companies (see paragraph 4.6).
- 2.11 This project is the third in the new MIF Cluster “Promoting Competitiveness through Corporate Social Responsibility” (MIF/GN-94). In addition, given the focus on value chains, this project builds directly on previous MIF experience on SME development among value chains.

**E. Relationship to other Bank supported efforts**

- 2.12 Recently, the Bank Group, and in particular the Sustainable Development Department (SDS), has focused special attention on CSR, holding conferences and other events to promote CSR in the region. SDS organized the Bank’s first ever conference on the subject in September 2002, the proceedings of which were published and widely disseminated. As part of the implementation of its CSR Action Plan (PS-9), the Bank hosted another regional CSR conference in October 2003 focused on CSR as a tool for competitiveness, and is participating in third party conferences and in the promotion of CSR among business associations. SDS is organizing another international conference on CSR for September 2004, which is to be held in Mexico and will be focused on promoting concrete CSR actions rather than simple rhetoric among private sector companies. A subsequent conference is being planned for 2005 in Chile. In addition, a project prepared by SDS was approved in 2003 with resources from the Fund for Special Operations (FSOs) for a project in El Salvador called “Synergy,” which is focused on partnering with large companies interested, as part of their existing CSR activities, in providing assistance to micro and small enterprises.

### **III. PROJECT OBJECTIVES AND COMPONENTS**

**A. Objectives**

- 3.1 The general objective of the program is to improve the competitiveness and market opportunities for small and medium enterprises (SMEs). The purpose of the program is to support the implementation of CSR measures among SMEs that are in the value chains of larger enterprises.

- 3.2 To achieve these objectives, the program will include the following three components: (i) Development of methodology and local capacity for implementing CSR measures; (ii) CSR implementation in SMEs in the value chain; and (iii) Promotion of CSR and dissemination of the results.

## **B. Components**

### **Component I: Development of methodology and local capacity for implementing CSR measures (MIF US\$ 169,975; Local US\$ 113,165)**

- 3.3 The purpose of this component is two-fold: to develop the capacity of local CSR service providers and to develop the methodology and plans for implementing CSR measures among SMEs in the value chains of large company participants. This component will include the following activities: (i) development of training manuals and implementation of courses to generate awareness and CSR capacity; (ii) training of local consultants in CSR implementation; (iii) initial assessment of the priority CSR focus areas in the value chains of the large companies; (iv) development of initial action plans to implement the key CSR principles in the SMEs in their value chains; and (v) development and installation of a database as a means to track results and monitor the performance of the participating companies in Component II.
- 3.4 Chief among the activities of this component is the development of a specific methodology to be employed within the value chain of a particular large company participant. As part of this, it is essential to consult and discuss the areas of priority for the large companies in terms of CSR measures among their value chains to ensure company staff involvement with the implementation of CSR measures in SMEs. From this information, a preliminary workplan will be developed and submitted to the Bank for its approval. Each of these workplans will describe the specific CSR activities (or “project”) that will be undertaken in the SMEs in the value chain of a particular keystone. Each project is intended to be specifically adapted to the particular interests, needs and opportunities of the SMES in the value chains of the keystone.
- 3.5 Keystone companies will be selected to participate in the program based on the following criteria: (i) legally registered in Mexico; (ii) commitment to CSR as demonstrated by concrete actions implemented by the company; (iii) ability to recruit approximately ten eligible SMEs that are suppliers or clients; (iv) willingness to cover 40% to 60% of the costs of implementing CSR measures among the SMEs (i.e., each project). (For more information, see the operational manual in Annex V in the technical files).
- 3.6 Another key aspect of this component is the development of the knowledge and skills of local professionals that can then assist with implementing CSR measures among the participating SMEs. This training will help develop the foundation for program sustainability (see paragraph 5.4).
- 3.7 This component will also include the development of a methodology for monitoring and measuring impact of CSR implementation among smaller enterprises that will encompass the various areas of CSR identified in paragraphs 2.2 and 2.3. This system for

monitoring the performance and results of the SMEs will be based on the indicators and methodology developed in each project and will be available on an Internet platform for easy access and entry of information.

**Component II: CSR implementation in SMEs in the value chain (MIF US\$ 634,230; Local US\$ 610,770)**

- 3.8 The purpose of this component to implement CSR measures in SMEs across the complete value chain associated with a large keystone company, including first- and second-tier suppliers, distributors and the final sale.
- 3.9 After receiving Bank approval on the initial workplan (see paragraph 3.4), program staff and contracted consultants will work with the keystone company and SME participants to develop a more detailed project workplan for implementing CSR measures among SMEs, which will be submitted to the MIF/Bank for final authorization. The types of project activities eligible to receive financing from the program include: (i) plan development – i.e. detailed project workplan; (ii) implementation of CSR plan – technical assistance for training, support and advisory services, specifying content, duration and target group; (iii) minimal expenditures for minor equipment needed to support implementation of the CSR project elements where strongly justified; (iv) relevant product or process certification, though only in furtherance of larger CSR objectives, excluding any renewal of prior or subsequent certification; and (v) developing technical and business plan, and assistance in securing financing for specific investments required for SMEs to implement CSR measures. Individual projects are expected to be a total amount of around US\$125,000 on average (of which 30% to 50% from MIF), and the maximum amount eligible for financing is US\$150,000 per project, including resources from MIF, keystone and other sources.
- 3.10 SME participants will be selected according to the following criteria: must (i) have sales of less than US\$5 million per year; (ii) be legally registered in Mexico; (iii) be an existing or potential supplier, distributor or client of a keystone company participant; (iv) be willing to implement CSR measures and share their experiences derived from the program with other companies; and (v) be willing to cover at least 10%-20% of the costs of implementing CSR measures in their company. The maximum amount of program resources per SME would be US\$15,000.
- 3.11 As a result of this Component, approximately 100 SME suppliers or clients of some ten keystone companies will have benefited from assistance with CSR implementation. These numbers are indicative, as the final numbers may vary according to the experience and interest of the keystone and the number of SMEs per large company.

**Component III: Promotion of CSR and dissemination of the results (MIF US\$ 34,724; Local US\$ 379,533)**

- 3.12 The purpose of this component is to promote CSR and disseminate the results of the program to the Mexican business community and society as a whole, especially related to the successful experiences achieved by the participating smaller enterprises. As part of

this effort, program related information such as case studies, fact sheets and press releases would be disseminated through a variety of forums and other means. In addition, this component includes the development of the CSR related curriculum for use in universities and other higher education institutions.

- 3.13 A website will be developed and maintained by the executing agency that will include updated details as to the progress of the program and information regarding the specific measures being implemented among the SMEs. In addition, a final international conference will be organized with participation from experts; program staff and companies participating in the program to present and discuss the lessons learned and program results. Through the dissemination of program related publications and specific events, business leaders, associations and chambers of commerce, government agencies, educational institutions and the general public will be provided with information about the benefits of CSR, experiences of the program and the best practices developed in terms of CSR implementation among SMEs. Therefore, as a result, the program will contribute to strengthening the CSR culture within the country.
- 3.14 As a means to further contribute to the cultural transformation related to CSR, a consultant will be contracted to develop CSR materials for use in higher education institutions. Such materials will be developed in coordination with professors from the Universidad Anáhuac. Once completed, these materials will be made available to all interested educational institutions in the country as well as outside Mexico.

#### **IV. EXECUTING AGENCY AND EXECUTION MECHANISM**

##### **A. Executing agency**

- 4.1 The Universidad Anáhuac in Mexico City will be the executing agency for this program and responsible for the counterpart resources. The university was founded in 1964, as a private university in Mexico focused on providing education predicated on fostering integrity among its students, with a strong sense of responsibility to society in general. In 1996, the university established the Anahuac Business Development Institute (IDEA), within the Department of Economics and Business, as a means to further solidify the connection to the business community, providing assistance with business plan development, information and forecasts on key economics variables, targeted entrepreneurial training and general business administration courses. In implementing this proposed project, Universidad Anáhuac will also have the institutional support of the Fundación Mexicana para la Innovación y Transferencia de Tecnología, A.C. (FUNTEC).
- 4.2 Universidad Anáhuac, through its IDEA, has experience as an executing agency for a MIF project through the Regional Management Training Program (ATN/MH-5418-RG), which was successfully completed in 2001. Among the significant products in this initiative was a new methodology for the development of case studies for Mexican SMEs, which resulted in 15 separate business cases that are still in use today. This new proposed project expects to benefit from this same methodology in terms of case studies that will be developed and used for disseminating the results (see Component III).

- 4.3 FUNTEC is the technical arm of the Confederación de Cámaras Industriales de los Estados Unidos Mexicanos (CONCAMIN) created to support efforts to improve the competitiveness of SMEs in México. In the area of CSR, CONCAMIN offers the “Ethics and Values in Industry” award each year in recognition of the top companies, chambers or other organizations in the area of social responsibility and ethics. In addition, FUNTEC is currently implementing a project with MIF resources to improve the productivity and competitiveness of SMEs by better integrating them into supply chains (ATN/MT-7139-ME). FUNTEC will not have a role in the day to day management of the program, but rather will assist with identifying and selecting keystone companies, help with program promotion and dissemination and will participate in the program’s Advisory Committee (see paragraph 4.4).

## **B. Execution mechanism**

- 4.4 For the administration of the activities, the program will have a Director, an administrative coordinator and secretary, who will be responsible for coordinating program actions, managing and controlling program activities and budget. The Program Director will report directly to the Executive Director of IDEA of the Universidad de Anáhuac. As a means to ensure coordination, the project will include an Advisory Committee comprised of a group of representatives from the keystone companies and participating SMEs, FUNTEC and Universidad Anahuac. The Committee’s principal functions include: reviewing and providing feedback on annual workplans for the program as well as on project-level workplans and to assist with program dissemination and the exchange of lessons learned.
- 4.5 **Execution and disbursement periods.** Execution and disbursement periods of 36 and 42 months, respectively, are anticipated. A revolving fund will be set up for 10% of the MIF contribution, which will be disbursed and managed in a separate account. Disbursements of grant funds and the purchase of goods and the contracting of services will be done in accordance with Bank/MIF procedures.
- 4.6 **Status of project preparation.** The design, budget and activities planned under the project have been prepared with the executing agency. Novartis, Coca-Cola Santander Serfin and PEMEX have confirmed participation in the program as keystones and have submitted letters of commitment for the necessary resources (see Annex VIII in the technical files). In addition, CEMEX, IBM and Microsoft in Mexico have also expressed interest in participating.

## **V. COST AND FINANCING**

- 5.1 **Cost and financing.** The cost of the project is estimated at US\$ 2,525,000. The MIF will contribute US\$ 1,275,000 on a non-reimbursable basis, and the executing agency will be responsible for providing US\$ 1,250,000 as local counterpart contribution (see Annex II for an itemized project budget), of which at least 50% must be in cash. Keystone company participants will contribute a significant portion of the counterpart requirement.

<b>Table 1. BUDGET BY ACTIVITIES</b>				
<b>(In US\$)</b>				
<b>ACTIVITIES</b>	<b>MIF</b>	<b>LOCAL</b>	<b>TOTAL</b>	<b>%</b>
Development of methodology and local capacity for implementing CSR measures	169,975	113,165	283,140	11.3
CSR implementation in SMEs in the value chain	634,230	610,770	1,245,000	49.8
Promotion of CSR and dissemination of the results	34,724	379,533	414,257	16.6
Program administration	279,517	114,244	393,760	15.8
Evaluations	40,000	--	40,000	1.6
Financial Audit	10,000	--	10,000	0.4
Contingencies	81,555	32,288	113,843	4.6
<b>SUBTOTAL</b>	<b>1,250,000</b>	<b>1,250,000</b>	<b>2,500,000</b>	<b>100.0</b>
Percentage	50%	50%		
Cluster Activities	25,000			
<b>TOTAL</b>	<b>1,275,000</b>	<b>1,250,000</b>	<b>2,525,000</b>	

- 5.2 The amount equivalent to US\$25,000 for Cluster Activities shall be utilized by the Bank for purposes of carrying out activities related to Cluster set forth in paragraph 7.2. This amount will be deducted from the amount of the Contribution on the effective date of the TC agreement of this operation, without requiring a disbursement request from the executing agency.
- 5.3 Up to US\$10,000 for contracting the Program Director prior to approval will be recognized as part of the counterpart contribution (see paragraph 4.4). This was deemed justified, as a significant amount of time is required to present the program to additional keystone companies and explain the details and planned activities.
- 5.4 **Sustainability.** The sustainability of the program will depend on the soundness of the institutional base built to implement concrete CSR initiatives in value chains and the achievement of actual competitive advantages from their implementation. Beyond the life of the program, Anáhuac / IDEA will continue to provide CSR implementation services to the larger companies as part of its ongoing programs. Similarly, the consulting capabilities built under the program will support similar implementation among SMEs on a commercial basis. The investments under the initial program will enhance competitiveness among participating companies – both SMEs and keystones, thereby fostering demand for continuing sustained initiatives from other small and large companies over time. Lastly, the CSR curriculum for higher education institutions (see paragraph 3.14) will be made available, further strengthening CSR knowledge and promoting CSR practices throughout the country.

## **VI. BENEFITS AND RISKS**

### **A. Benefits**

- 6.1 The specific benefits of each value chain project within the program will depend on the specific CSR area of focus. The projects will produce benefits at three levels: the SMEs directly involved, the keystone company sponsors, and the broader business community in Mexico and elsewhere. For the SMEs, the benefit of stronger business relationships through the value chain of the sponsoring keystone will be useful as a base for more general business growth. Specifically, the CSR measures implemented by participating

SMEs will enhance their competitiveness through: (i) superior market access; (ii) premium pricing power; and (iii) reduced production, marketing, financing and or administrative costs. For the broader business community, the program will build models and best practices for development and dissemination of CSR practices through value chains, which will serve to speed replication more broadly and increase the effectiveness of future initiatives. Program implementation will produce benefits to the families of employees of the SMEs and keystone companies, as well as the broader communities within which they operate, as effects of the realization of the CSR initiatives, such as enhanced training for health and safety measures, spread more broadly.

**B. Beneficiaries**

- 6.2 The program's beneficiaries will be primarily the approximately 100 SMEs participating as part of the value chain of some ten keystone companies which sponsor projects. As noted above, members of employees' families and their broader communities will also be beneficiaries of the projects implemented.

**C. Risks**

- 6.3 There are two primary risks foreseen. First, there may not be a sufficient number of keystone companies willing to sponsor projects within the program. This risk is mitigated by strong efforts early in the program development to engage potential keystone companies. Indeed, several companies have already committed to participating in the program. Second, the participating SMEs may not implement the CSR measures successfully and, therefore, may not realize the benefits foreseen. This risk is being and will continue to be mitigated by detailed advance planning of each project, with collaboration among the sponsoring keystone company, participating SMEs and the executing agency. In addition, by establishing a strong monitoring system (as indicated in paragraph 3.7), each project will be tracked and assessed on a continuous basis against pre-established indicators.

**VII. MONITORING AND EVALUATION**

- 7.1 **Monitoring.** The Bank's Country Office in Mexico will be responsible for the supervision of this project, with the technical support of the project team. The Country Office, with the support of the project team, will conduct annual reviews of the performance reports submitted by the executing agency to determine the degree of fulfillment of project objectives and to determine if any adjustments need to be made.
- 7.2 Under the Cluster activities line item in the budget, the MIF Office will manage resources to cover expenses associated with Cluster workshops, provide funding for staff from the executing agency to attend Cluster events, hire a technical advisor for the Cluster and other Cluster related activities. The technical advisor will be responsible for assisting all the executing agencies for Cluster projects and for helping with monitoring and data collection for the MIF Office.
- 7.3 **Evaluations.** An intermediate and a final evaluation of the project will be undertaken by external consultants to be contracted directly by the Bank with project funds. The mid-term evaluation will be prepared on the earlier of: (i) 18 months after first disbursement;

or (ii) when 50% of the resources have been disbursed. A final evaluation will be conducted at the end of project execution or when 95% of the Bank's contribution has been disbursed. For the intermediate evaluation, the consultant will consider, among other items: (i) the number of keystone company projects actually implemented and the numbers of SMEs participating; (ii) the precision of the CSR focus area objectives set for each project; (iii) the clarity and relevance of the indicators fixed for each project; and (iv) the extent and breadth of participation within the participating SMEs.

- 7.4 For the final evaluation, the consultant will also take into account: (i) improvements in the business relationship between the keystone companies and participating SMEs; (ii) specific changes in conduct, operations and investments among the SMEs; and (iii) concrete benchmarks of enhanced SME competitiveness.
- 7.5 During the project's execution, the executing agency will compile supervision and project evaluation indicators. These indicators are set forth in the Logical Framework (see Annex I) and will be used by the Country Office and the executing agency to gauge the overall impact and to assess the results. The executing agency will provide access to all the information and documentation needed to conduct these evaluations.

### **VIII. ENVIRONMENTAL AND SOCIAL IMPACTS**

- 8.1 Given the nature of the proposed program, adverse environmental and social impacts are not expected. The program expects to contribute to positive social and environmental performance of participating companies by assisting in the implementation of socially and environmentally responsible business practices, including those related to improved environmental management, workplace health and safety, among other areas.
- 8.2 The Committee on Environment and Social Impact (CESI) reviewed this project document in its meeting (TRG 10-04) held on March 12, 2004, and recommended that the project document clarify that the monitoring system is expected to include specific indicators that will address environment related areas, among others. As a result, it is expected that there will be quantifiable environment related benefits in many of the participating SMEs that can be measured against the baseline (see paragraph 3.7).

### **IX. SPECIAL CONTRACTUAL CONDITIONS**

- 9.1 None.



**IMPLEMENTING CORPORATE SOCIAL RESPONSIBILITY MEASURES  
IN SMALL AND MEDIUM-SIZED ENTERPRISES IN THE VALUE CHAIN (ME-M1003)**

**LOGICAL FRAMEWORK**

<b>Narrative summary</b>	<b>Indicators</b>	<b>Means of verification</b>	<b>Assumptions</b>
<b>GOAL</b>			
To make Mexican small and medium-sized enterprises (SMEs) more competitive and enhance their market opportunities.	The program's competitiveness indicators show improvement.	SME diagnostic assessments and competitiveness baselines. Competitiveness factors include productivity, sales, and market access.	CSR offers a way for SMEs to better organize production and marketing.
<b>PURPOSE</b>			
To build and introduce a model for implementing corporate social responsibility (CSR) measures among SMEs in the value chains of large companies.	By program end, at least 10 groups of SMEs (projects) have adopted CSR practices in value chains across at least five industries.  Basic CSR indicators show improvement among participating SMEs.	Agreements with participating keystone companies.  Comparison between program baseline and final evaluation.  The program's basic CSR indicators include business ethics, worker quality of life, occupational safety and health, and environment.	Economic and political conditions remain stable.
<b>COMPONENTS</b>			
I. Development of methodology and local capacity for implementing CSR measures among SMEs.	An initial CSR implementation model that includes methodology, policies, practices, and schedules for CSR strategies and actions at SMEs is ready by the end of the first six-month period.  At least 15 consultants are trained in CSR implementation at SMEs in year 1, and 15 in year 2.  At least 25 keystone company executives and business and labor organization representatives receive CSR training in year 1, and 25 in year 2.  At least 30 SME representatives receive CSR training in year 1, 30 in year 2, and 40 in year 3.	Handbooks and manuals are prepared and published for diagnostic assessments, planning, evaluation, and documentation.  Event records (attendance sheets, handouts, etc.)  Event records (attendance sheets, handouts, etc.)  Event records (attendance sheets, handouts, etc.)	Companies and consultants have incentives to participate in the CSR program.

Narrative summary	Indicators	Means of verification	Assumptions
II. CSR implementation among SMEs in the value chain.	At least 100 SMEs implement CSR measures by program end.	Agreements with participating SMEs and consulting contracts.	SMEs have the commitment and interest to take part in CSR activities.
III. Promotion of CSR and dissemination of outcomes.	At least 5 successful projects or SMEs are documented by program end.  At least 750 representatives of companies, business associations and chambers of commerce, civil society organizations, educational institutions, and government agencies are made aware of the program and the benefits of CSR.	Published and distributed case studies.  Event records (attendance sheets, handouts, etc.)	Businesspeople and business associations are interested in CSR.
<b>ACTIVITIES</b>			
I.1 Develop and validate a handbook for assessment and documentation of CSR strategies and actions at keystone companies and SMEs.	A handbook is validated by keystone companies and used for projects.	Published handbook.	
I.2 Develop a system for processing best practices and mainstreaming experiences.	A best practices manual is developed by the end of year 1.	Published manual.	
I.3 Develop and validate methodologies for CSR assessment, workplans, and indicator design among SMEs.	A manual of methodologies with CSR indicators validated by keystone companies has been developed by the end of year 1.	Published manual.	
I.4 Assess CSR principles at keystone companies and develop workplans for implementing CSR measures in their value chains.	At least 10 workplans have been developed by the end of year 2.	Written workplans.	
I.5 Develop an information system to track the progress of participating companies and the program as a whole.	Tracking system is up and running by the end of year 1 and regularly upgraded.	Electronic access to system.	
I.6 Train and certify consultants.	Training materials are developed and used.	Published materials.	

Narrative summary	Indicators	Means of verification	Assumptions
	<p>A manual on the consultant certification process is ready by the end of year 1.</p> <p>At least 5 trainers have been trained to deliver CSR training by the end of year 1.</p> <p>40 consultants have attended training courses by the end of year 2.</p> <p>At least 30 consultants have been certified by the end of year 3.</p>	<p>Event records (attendance sheets, handouts, etc.)</p> <p>Event records (attendance sheets, handouts, etc.)</p> <p>Event records (attendance sheets, handouts, etc.)</p> <p>Certificates issued.</p>	
I.7 CSR training and diplomas.	At least 1 course is held each year with 20 participants/course, and 45 individuals receive diplomas.	<p>Event records (attendance sheets, handouts, etc.)</p> <p>Diplomas granted.</p>	
II.1 Identify, raise awareness, and persuade company executives.	10 awareness events are held each year with 20 participants/event.	Event records (attendance sheets, handouts, etc.)	
II.2 Train company staff.	At least 75 people receive training each year at each team of keystone company and SMEs.	Event records (attendance sheets, handouts, etc.)	
II.3 Develop an SME competitiveness baseline.	An baseline is developed at 100 SMEs by program end.	Agreements with participating SMEs	
II.4 Develop an action plan for each CSR project.	10 projects are executed at keystone companies and SMEs.	Contracts with keystone companies.	
II.5 Implement CSR measures among SMEs in each project.	CSR measures are implemented at 100 SMEs by program end.	Agreements with participating SMEs	
II.6 Track, monitor and evaluate outcomes and impacts, including project or SME case studies and their documentation.	<p>The 100 participating SMEs are monitored and evaluated.</p> <p>At least 5 case studies are completed by program end.</p>	<p>Project progress reports.</p> <p>Performance reports.</p> <p>Case study documentation.</p>	
III.1 Hold a kickoff event to build awareness of the program.	A kickoff event is held with at least 60 attendees.	<p>Event records (attendance sheets, agenda)</p> <p>Mass media coverage.</p>	

Narrative summary	Indicators	Means of verification	Assumptions
III.2 Regular focus groups to evaluate actions and identify opportunities for continual improvement.	At least 10 meetings in year 2, and 10 in year 3, with groups of participating entrepreneurs, business managers, line staff, and consultants.	Event records (attendance sheets, handouts, etc.)	
III.3 Publish and disseminate documented case studies on projects or SMEs.	At least 5 published case studies are disseminated.	Published and disseminated case studies.	
III.4 Hold events to disseminate outcomes.	At least 3 seminars are held in years 2 and 3 with 30 attendees/seminar.  A national conference is held at program-end with at least 150 attendees.	Event records (attendance sheets, handouts, etc.)  Event records (attendance sheets, handouts, etc.)	
III.5 Develop promotional materials.	Posters, brochures, newspaper inserts, and a CD-ROM on CSR and the program.	Posters, brochures, CD-ROMs.	
III.6 Participate in national and international forums to discuss CSR.	Participation in at least 3 national conferences or workshops.  Participation in at least 3 international conferences or workshops.	Event records (agenda, handouts, presentations)  Event records (agenda, handouts, presentations)	
III.7 Mass media coverage.	3 interviews/commentaries are broadcast on radio and TV by program end.  2 newspaper articles and magazine feature stories appear each year.  Up-to-date website.	Articles and interviews published/broadcast in the mass media.	
III.8 Incorporate the CSR implementation model as part of the higher education curriculum in order to promote it among future leaders.	The model is documented (curriculum development).	Curricula and courses of study, or changes to courses.	

**Related Projects in Mexico and of the CSR cluster**  
**Implementing Corporate Social Responsibility Measures in Small and Medium Enterprises in the Value Chain**

**ME-M1003**

**A. Similar or related MIF projects.**

<b>Project number and date of approval</b>	<b>Project name, executing agency, and amount</b>	<b>Date of signature and disbursement period in months</b>	<b>Percentage disbursed</b>	<b>Comments</b>
ATN/MH-6742-ME  November 9, 1999	Training in Environmental Management Systems  Instituto de Protección Ambiental (IPA)  US\$395,000 MIF Amount	December 16, 1999  30 months	Completed. 23% of MIF resources were unused and subsequently canceled.	Although the project experienced several delays at the beginning of the execution period, it was executed successfully and reached a significant portion of its expected outcomes.
ATN/MT-7139-ME  September 5, 2000	Program to Support Productive Integration  Fundación Mexicana para Innovación y Transferencia Tecnología PYME (Funtec)  US\$2,000,000 MIF Amount	November 15, 2000  48 months	40%	The project is experiencing significant delays which has required a 24-month extension. The COF/CME is working with the executing agency to develop an action plan to improve the project's execution performance.
ATN/MT-8243-ME  March 12, 2003	Standards for Financial Information  Instituto Mexicano de Contadores Públicos, A.C. (IMCP)  US\$1,700,000 MIF Amount	July 30, 2003  42 months	23%	The executing agency has fulfilled all conditions prior and project activities are being carried out according to the project's activity schedule.
ATN/ME-8378-ME  July 30, 2003	Expansion of Cleaner Production Centers  Instituto Politécnico Nacional (IPN) -	December 15, 2003  42 months	10%	The executing agency has fulfilled all conditions prior and project activities are being carried out according to the project's activity schedule.

	Centro Mexicano Producción más Limpia  US\$1,000,000 MIF Amount			
ATN/ME-8424-ME  September 9, 2003	Promotion of cleaner production opportunities in the Bajío Region  Capítulo del Bajío de la Cámara de Comercio México-Estados Unidos (Cámara)  US\$465,000 MIF Amount	N/A  38 months	0%	The project implementation progress has been classified as unsatisfactory given that the executing agency has not complied with conditions prior to first disbursement. In addition, there is concern that the executing agency will not be able to guarantee the counterpart resources.
ATN/ME-8432-ME  September 10, 2003	Development of Productive Chains in Guanajuato  Coordinadora de Fomento al Comercio Exterior [COFOCE] del Estado de Guanajuato  US\$1,000,000 MIF Amount	December 1, 2003  42 months	10%	The project implementation progress has been classified as satisfactory. The executing agency experienced several delays in complying with conditions prior to first disbursement; however, has begun to carry out the initial activities according to the project's timetable.
ATN/ME-7956-RE12 (??)  April 22, 2004	E-productive chain  Universidad de Guadalajara  US\$320,400 MIF Amount	N/A  12 months	0%	Recently approved. Executing agency is in the process of complying with conditions prior.

**B. Similar or related Bank projects.**

None.

**C. Projects related to the same sector or beneficiary group.**

See section A.

**D. Projects under the Corporate Social Responsibility Cluster**

<b>Project number and date of approval</b>	<b>Project name, executing agency, and amount</b>	<b>Date of signature and disbursement period in months</b>	<b>Percentage disbursed</b>	<b>Comments</b>
ATN/ME-8381-RG  July 30, 2003	Promoting Corporate Social Responsibility  Fundación Acción Empresarial  US\$1,100,000 MIF Amount	October 15, 2003  42 months	10%	The executing agency has fulfilled all conditions prior and project activities are being carried out according to the project's activity schedule.
ATN/ME-8529-CH  December 3, 2003	Adoption of Corporate Social Responsibility practices in SMEs  Centro VINCULAR (PUCV) Pontificia Universidad Católica de Valparaíso  December 3, 2003	March 1, 2004  52 months	10%	The executing agency has fulfilled all conditions prior and project activities are being carried out according to the project's activity schedule.

**IMPLEMENTING CORPORATE SOCIAL RESPONSIBILITY MEASURES  
IN SMALL AND MEDIUM-SIZED ENTERPRISES IN THE VALUE CHAIN  
(ME-M1003)**

**Summary Itemized Budget**

UA/MIF Project	Total			
	MIF	UA		Subtotal
		In cash	In kind	
<b>I. Component 1: Development of capacity for implementing CSR measures among SMEs</b>	<b>169,975</b>	<b>19,545</b>	<b>93,620</b>	<b>283,140</b>
<b>I.1 Develop and validate handbooks for assessment and documentation of CSR strategies and actions at keystone companies and SMEs</b>	<b>7,184</b>	<b>816</b>	<b>0</b>	<b>8,000</b>
<b>I.2 Develop a system for processing best practices and mainstreaming experiences</b>	<b>4,490</b>	<b>510</b>	<b>0</b>	<b>5,000</b>
<b>I.3 Develop and validate methodologies for CSR assessment, workplans, and indicator design among SMEs</b>	<b>13,470</b>	<b>1,530</b>	<b>0</b>	<b>15,000</b>
<b>I.4 Assess CSR principles at keystone companies and develop workplans for implementing CSR measures in their value chains</b>	<b>35,920</b>	<b>4,080</b>	<b>0</b>	<b>40,000</b>
<b>I.5 Develop an information system to track the progress of participating companies and the program as a whole</b>	<b>16,164</b>	<b>1,836</b>	<b>0</b>	<b>18,000</b>
<b>I.6 Develop a program to train and certify consultants</b>	<b>20,151</b>	<b>2,369</b>	<b>2,800</b>	<b>25,320</b>
<b>I.7 CSR training and diplomas</b>	<b>0</b>	<b>0</b>	<b>90,820</b>	<b>90,820</b>
<b>I.8 Component coordination</b>	<b>72,596</b>	<b>8,404</b>	<b>0</b>	<b>81,100</b>
<b>II. Component 2: CSR implementation among SMEs in the value chain</b>	<b>634,230</b>	<b>610,770</b>	<b>0</b>	<b>1,245,000</b>
<b>II.1 Identify and raise awareness of company groups for each project</b>	<b>15,555</b>	<b>16,445</b>	<b>0</b>	<b>32,000</b>
<b>II.2 Train staff at companies participating in each project</b>	<b>15,555</b>	<b>16,445</b>	<b>0</b>	<b>32,000</b>
<b>II.3 Gather baseline data on participating SMEs (baseline)</b>	<b>15,300</b>	<b>14,700</b>	<b>0</b>	<b>30,000</b>
<b>II.4 Develop and implement an action plan for each CSR project</b>	<b>561,000</b>	<b>539,000</b>	<b>0</b>	<b>1,100,000</b>
<b>II.7 Component coordination</b>	<b>42,120</b>	<b>38,880</b>	<b>0</b>	<b>81,000</b>
<b>III. Component 3: Promotion of CSR and dissemination of outcomes</b>	<b>34,724</b>	<b>23,897</b>	<b>355,636</b>	<b>414,257</b>



UA/MIF Project	Total			
	MIF	UA		Subtotal
		In cash	In kind	
<b>III.1 Hold a kickoff event to build awareness of the program (80 attendees)</b>	5,312	2,302	7,066	14,680
<b>III.2 Regular focus groups</b>	0	0	2,491	2,491
<b>III.3 Publish and disseminate documented case studies on projects or SMEs</b>	600	600	1,800	3,000
<b>III.4 Hold events to disseminate outcomes</b>	9,362	3,712	18,616	31,690
<b>III.5 Develop promotional materials</b>	3,250	1,083	16,083	20,416
<b>III.6 Participate in national and international forums to discuss CSR</b>	16,200	16,200	0	32,400
<b>III.7 Mass media coverage</b>	0	0	6,000	6,000
<b>III.8 Make the CSR implementation model part of the higher education curriculum, to promote it among future leaders</b>	0	0	222,580	222,580
<b>III.9 Component coordination</b>	0	0	81,000	81,000
<b>IV. Project Management</b>	279,517	26,404	87,840	393,760
<b>IV.1 Program administrative personnel</b>	259,100	10,000	0	269,100
<b>IV.1.2 Coordination of Anahuac Business Development Institute (IDEA) office</b>	0	0	59,040	59,040
<b>IV.2 Operating expenses</b>	8,550	1,350	0	9,900
<b>IV.3 Supporting infrastructure</b>	11,867	15,054	28,800	55,720
<b>V. Evaluation</b>	40,000	0	0	40,000
<b>VI. Audits</b>	10,000	0	0	10,000
<b>VII. Contingencies</b>	81,555	32,288	0	113,843
<b>SUBTOTAL</b>	1,250,000	712,903	537,096	2,500,000
<b>MIF CSR cluster activities</b>	25,000	0	0	25,000
<b>TOTAL</b>	1,275,000	712,903	537,096	2,525,000